

**REPORT OF THE AUDIT OF THE
OWEN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
OWEN COUNTY SHERIFF

For The Year Ended
December 31, 2004

The Auditor of Public Accounts has completed the Owen County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$13,554 from the prior year, resulting in excess fees of \$19,851 as of December 31, 2004. Revenues increased by \$37,247 from the prior year and total expenditures increased by \$50,801.

Report Comments:

- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only
- The Sheriff's Office Lacks Proper Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
COMMENTS AND RECOMMENDATIONS	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William O'Banion, Owen County Judge/Executive
The Honorable Zemer K. Hammond, Owen County Sheriff
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Owen County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable William O'Banion, Owen County Judge/Executive
Honorable Zemer K. Hammond, Owen County Sheriff
Members of the Owen County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only
- The Sheriff's Office Lacks Proper Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Owen County, Kentucky, and the Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 6, 2005

OWEN COUNTY
ZEMER K. HAMMOND, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Federal Grants	\$	571	
State - Kentucky Law Enforcement Foundation Program Fund			10,026
State Fees For Services:			
Finance and Administration Cabinet	\$	12,673	
Cabinet For Human Resources		134	
Sheriff Security Service		<u>12,561</u>	25,368
Circuit Court Clerk - Fines and Fees Collected			2,960
Fiscal Court			875
County Clerk - Delinquent Taxes			9,761
Commission On Taxes Collected			136,285
Fees Collected For Services:			
Auto Inspections		3,130	
Accident and Police Reports		215	
Serving Papers		9,480	
Carrying Concealed Deadly Weapon Permits		<u>4,170</u>	16,995
Miscellaneous			1,689
Tax Penalty Fees			19,897
Interest Earned			1,110
Transfer of Funds			10,300
Borrowed Money:			
State Advancement			<u>59,994</u>
Total Revenues	\$		<u>295,831</u>

The accompanying notes are an integral part of this financial statement.

OWEN COUNTY
 ZEMER K. HAMMOND, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	48,872
Part-Time Salaries		30,268
Other Salaries		571
KLEFPF Salaries		9,910

Contracted Services-

Advertising		400
Vehicle Maintenance and Repairs		7,788

Materials and Supplies-

Office Materials and Supplies		3,948
Uniforms		3,944
Law Enforcement Supplies		3,842

Auto Expense-

Gasoline		9,491
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Other Charges-

Conventions and Travel		3,460
Dues		380
Postage		3,999
Prisoner Transport		4,605
Carrying Concealed Deadly Weapon Permits		1,630
Bank Fees		237
Penalty Refunds		952
Transfer of Funds		10,300

Capital Outlay-

Office Equipment		1,201
Miscellaneous		2,498

Debt Service-

State Advancement		59,994
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Total Expenditures		\$	208,290
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The accompanying notes are an integral part of this financial statement.

OWEN COUNTY
 ZEMER K. HAMMOND, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Less: Disallowed Expenditures		
Flowers	\$ 321	
Late Fee	35	\$ 356
		<hr/>
Total Allowable Expenditures		207,934
		<hr/>
Net Revenues		87,897
Less: Statutory Maximum	64,953	
Training Incentive Benefit	3,093	68,046
		<hr/>
Excess Fees Due County for 2004		19,851
Payments to Fiscal Court - February 14, 2005		19,409
		<hr/>
Balance Due Fiscal Court at Completion of Audit		\$ 442
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The accompanying notes are an integral part of this financial statement.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months of the year and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

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COMMENTS AND RECOMMENDATIONS

OWEN COUNTY
ZEMER K. HAMMOND, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

During our audit of the Sheriff's fee account for calendar year 2004, we conducted extensive testing of the Sheriff's expenditures. As a result of our test procedures we have identified a total of \$356 in expenditures that are not considered allowable. Technical Audit Bulletin 93-001, Section 3 enumerates thirteen categories of expenditures that are not allowable. Additionally, KRS 64.850 prohibits fee officials from expending "public funds for any purpose other than that for which they were received . . ."

Our testing procedures indicate the Sheriff made expenditures that are specifically identified in Technical Audit Bulletin 93-001. The following schedule provides a breakdown of the 2004 expenditures that are not considered allowable:

- Invoices totaling \$321 paid to "Petals on the Square" for flower arrangements, which would fall under "gifts, entertainment or meals unrelated to official business"
- One reimbursement for \$35 made to the Sheriff for a late fee charged on his personal credit card, which would fall under "penalties for late payments"

We recommend the Sheriff expend fee account monies in accordance with the provisions of KRS 64.850. We also recommend the Sheriff maintain proper and accurate documentation for all expenditures, avoid expenditures for personal items, and that all payments be made in a timely manner in order to avoid late fees. We recommend the Sheriff deposit personal funds in the amount of \$356 in order to reimburse the calendar year 2004 fee account for these disallowed expenditures.

Sheriff's Response:

No Response

OWEN COUNTY
ZEMER K. HAMMOND, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Proper Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

No Response

PRIOR YEAR:

The Sheriff's Office Lacks Proper Segregation Of Duties

This comment was not corrected and is repeated in the current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William O'Banion, Owen County Judge/Executive
The Honorable Zemer K. Hammond, Owen County Sheriff
Members of the Owen County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Owen County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated May 6, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owen County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Proper Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owen County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 6, 2005

